

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 6232-02  
Bill No.: HB 2110  
Subject: Taxation and Revenue - Sales and Use  
Type: Original  
Date: April 28, 2014

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Bill Summary: This proposal would modify sales tax provisions.

**FISCAL SUMMARY**

| <b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>       |                   |                           |                           |
|---|-------------------|---------------------------|---------------------------|
| <b>FUND AFFECTED</b>                                      | <b>FY 2015</b>    | <b>FY 2016</b>            | <b>FY 2017</b>            |
| General Revenue   | (\$54,176)        | Up to \$14,986,540        | Up to \$14,985,774        |
| <b>Total Estimated Net Effect on General Revenue Fund</b> | <b>(\$54,176)</b> | <b>Up to \$14,986,540</b> | <b>Up to \$14,985,774</b> |

| <b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>              |                |                          |                          |
|---|----------------|--------------------------|--------------------------|
| <b>FUND AFFECTED</b>  | <b>FY 2015</b> | <b>FY 2016</b>           | <b>FY 2017</b>           |
| Conservation Commission                                       | \$0            | Up to \$627,500          | Up to \$627,500          |
| Parks, and Soil and Water                                     | \$0            | Up to \$502,000          | Up to \$502,000          |
| School District Trust   | \$0            | Up to \$5,020,000        | Up to \$5,020,000        |
| <b>Total Estimated Net Effect on <u>Other</u> State Funds</b> | <b>\$0</b>     | <b>Up to \$6,149,500</b> | <b>Up to \$6,149,500</b> |

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 10 pages.

| <b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>                  |            |            |            |
|---|------------|------------|------------|
| FUND AFFECTED   | FY 2015    | FY 2016    | FY 2017    |
|   |            |            |            |
|   |            |            |            |
| <b>Total Estimated Net Effect on <u>All</u> Federal Funds</b> | <b>\$0</b> | <b>\$0</b> | <b>\$0</b> |

| <b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b> |              |              |              |
|---|--------------|--------------|--------------|
| FUND AFFECTED   | FY 2015      | FY 2016      | FY 2017      |
| General Revenue   | 2 FTE        | 2 FTE        | 2 FTE        |
|   |              |              |              |
| <b>Total Estimated Net Effect on FTE</b>                  | <b>2 FTE</b> | <b>2 FTE</b> | <b>2 FTE</b> |

☐ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

| <b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b> |            |                           |                           |
|--|------------|---------------------------|---------------------------|
| FUND AFFECTED                              | FY 2015    | FY 2016                   | FY 2017                   |
| <b>Local Government</b>                    | <b>\$0</b> | <b>Up to \$18,574,000</b> | <b>Up to \$18,574,000</b> |

## **FISCAL ANALYSIS**

### **ASSUMPTION**

#### **Sections 144.010 and 144.020, RSMo. - Sales Tax on Habilitation Services:**

Changes to these provisions would impose a sales tax on individual or group habilitation services with developmental disabilities, unless those services were performed in an intermediate care facility for the intellectually disabled or by a person or entity licensed by the Department of Health.

Officials from the **Office of the Secretary of State (SOS)** assume many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the Secretary of State's Office for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Officials from the **Joint Committee on Administrative Rules** assume that this proposal would not have a fiscal impact to their organization in excess of existing resources.

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** assume, based on estimates provided by the Department of Mental Health (DMH), this proposal would extend the sales tax law to habilitation services provided primarily to DMH clients and would generate \$36,269,500 in revenue. BAP officials estimated \$21,209,500 in additional state revenue and \$15,060,000 (assuming a 3% tax rate) for the local revenues. BAP officials assume Total State Revenue would increase by the estimated \$21,209,500 and note the state's Article X, Section 18(e) calculation would include the \$21,209,500 in additional state revenue and may also include the \$15,060,000 in increased local revenue.

ASSUMPTION (continued)

Officials from the **Department of Mental Health (DMH)** assume this proposal would modify sales tax provisions by making the providers of individual or group habilitation services to persons with developmental disabilities subject to sales tax. These provision would exclude services provided in an intermediate care facility for the intellectually disabled, and services provided by a person or entity that has a license from the Missouri Department of Health and Senior Services. The sales tax imposed by this subdivision would be effective July 1, 2015, and would expire on June 30, 2017.

DMH officials provided an estimate of the proceeds from the state and local tax. Revenues for the first year are estimated to be \$36,269,500 based on estimated taxable sales of \$502,000,000 and the current state tax rate of 4.225%, and DMH officials assume this legislation would impose no increased cost to their organization.

Officials from the **Department of Revenue (DOR)** assume this proposal would impose a sales tax on individual and group habilitation services which would create an unknown, positive impact on Total State Revenue. DOR officials noted the Department of Mental Health may provide additional information on the estimated impact to Total State Revenue.

Specifically, DOR officials noted this proposal would modify state law so that individual or group habilitation services would be considered a "sale at retail."

Administrative Impact

DOR officials assume Collections and Tax Assistance (CATA) would have additional customer registration phone contacts, business registrations, and registration account updates, and CATA would need two additional Revenue Processing Technicians I for contacts to the registration section and the tax assistance offices. DOR officials noted each technician would require CARES equipment and license.

The DOR estimate of cost to implement this proposal, including two additional employees and related benefits, equipment, and expense totaled \$85,378 for FY 2015, \$82,710 for FY 2016, and \$83,570 for FY 2017.

ASSUMPTION (continued)

**Oversight** requested additional information from the Department of Mental Health, and we were informed several thousand providers could become subject to sales tax if this proposal is implemented. Oversight notes these providers would likely be unfamiliar with sales tax procedures and requirements. Oversight also notes this proposal would become effective July 1, 2015 (FY 2016) and assumes the Department of Revenue would need the additional employees beginning January 1, 2015 (FY 2015) in order to implement the proposal when it becomes effective.

**Oversight** assumes the DOR estimate of expense and equipment cost for the new FTE could be overstated. If DOR is able to use existing desks, file cabinets, chairs, etc., the estimate for equipment could be reduced by roughly \$6,000 per new employee.

**Oversight** has, for fiscal note purposes only, changed the starting salary for the additional employees to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees and policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight has also adjusted the DOR estimate of equipment and expense in accordance with OA budget guidelines. Finally, Oversight assumes a limited number of additional employees could be accommodated in existing office space.

ASSUMPTION (continued)

**Oversight** has estimated the potential sales tax revenue for this proposal based on the amount of taxable sales (\$502,000,000) provided by the Department of Mental Health (DMH). Oversight assumes DMH would have the most reliable information as to the amount of taxable sales, but for fiscal note purposes will indicate additional revenue up to the amounts calculated.

| <u>Fund or entity</u>     | <u>Sales Tax Rate</u> | <u>Annual</u> |
|---------------------------|-----------------------|---------------|
| General Revenue           | 3.000%                | \$15,060,000  |
| School District Trust     | 1.000%                | \$5,020,000   |
| Conservation Commission   | 0.125%                | \$627,500     |
| Parks, and Soil and Water | 0.100%                | \$502,000     |
| Local Governments *       | 3.700%                | \$18,574,000  |

\* The 3.7% average rate for local governments was computed by Oversight based on collections reported by the Department of Revenue.

**Oversight** understands that sales tax revenues in the School District Trust Fund are distributed along with other revenues to local school districts but will not show those transfers in this fiscal note.

Officials from the **Department of Elementary and Secondary Education**, the **Department of Public Safety - Missouri Veterans Commission**, and the **Department of Social Services** assume this proposal would have no fiscal impact on their organizations.

| <u>FISCAL IMPACT - State Government</u>                                      | FY 2015<br>(10 Mo.)      | FY 2016                              | FY 2017                              |
|--|--------------------------|--------------------------------------|--------------------------------------|
| <b>GENERAL REVENUE FUND</b>  |                          |                                      |                                      |
| <u>Additional revenue</u> - Taxable services<br>Sections 144.010 and 144.020 | \$0                      | Up to<br>\$15,060,000                | Up to<br>\$15,060,000                |
| <u>Cost - DOR</u>  |                          |                                      |                                      |
| Salaries   | (\$23,640)               | (\$47,280)                           | (\$47,753)                           |
| Benefits   | (\$12,058)               | (\$24,115)                           | (\$24,356)                           |
| Equipment and expense  | <u>(\$18,478)</u>        | <u>(\$2,065)</u>                     | <u>(\$2,117)</u>                     |
| Total  | <u>(\$54,176)</u>        | <u>(\$73,460)</u>                    | <u>(\$74,226)</u>                    |
| FTE change - DOR   | 2 FTE                    | 2 FTE                                | 2 FTE                                |
| <b>ESTIMATED NET EFFECT ON<br/>GENERAL REVENUE FUND</b>                      | <b><u>(\$54,176)</u></b> | <b><u>Up to<br/>\$14,986,540</u></b> | <b><u>Up to<br/>\$14,985,774</u></b> |
| Estimated Net FTE Effect on General<br>Revenue Fund                          | 2 FTE                    | 2 FTE                                | 2 FTE                                |
| <b>CONSERVATION COMMISSION<br/>FUND</b>                                      |                          |                                      |                                      |
| <u>Additional revenue</u> - Taxable services<br>Sections 144.010 and 144.020 | <u>\$0</u>               | <u>Up to \$627,500</u>               | <u>Up to \$627,500</u>               |
| <b>ESTIMATED NET EFFECT ON<br/>CONSERVATION COMMISSION<br/>FUND</b>          | <b><u>\$0</u></b>        | <b><u>Up to \$627,500</u></b>        | <b><u>Up to \$627,500</u></b>        |

FISCAL IMPACT - State Government  
 (Continued)

FY 2015  
 (10 Mo.)

FY 2016

FY 2017

**PARKS, AND SOIL AND WATER  
 FUND**

Additional revenue - Taxable services  
 Sections 144.010 and 144.020

\$0   Up to \$502,000   Up to \$502,000

**ESTIMATED NET EFFECT ON  
 PARKS, AND SOIL AND WATER  
 FUND**

**\$0**   **Up to \$502,000**   **Up to \$502,000**

**SCHOOL DISTRICT TRUST FUND**

Additional revenue - Taxable services  
 Sections 144.010 and 144.020

\$0   Up to \$5,020,000   Up to \$5,020,000

**ESTIMATED NET EFFECT ON  
 SCHOOL DISTRICT TRUST FUND**

**\$0**   **Up to \$5,020,000**   **Up to \$5,020,000**

FISCAL IMPACT - Local Government

FY 2015  
 (10 Mo.)

FY 2016

FY 2017

**LOCAL GOVERNMENTS**

Additional revenue - Taxable services  
 Sections 144.010 and 144.020

\$0   Up to \$18,574,000   Up to \$18,574,000

**ESTIMATED NET EFFECT ON  
 LOCAL GOVERNMENTS**

**\$0**   **Up to \$18,574,000**   **Up to \$18,574,000**



### FISCAL IMPACT - Small Business

This proposal could have a direct fiscal impact to small businesses involved in providing habilitation services.

### FISCAL DESCRIPTION

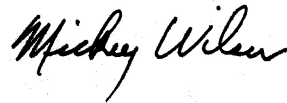
The proposed legislation would revise the definition of "sale at retail" to include individual or group habilitation services. The proposal would be effective July 1, 2015, and would expire on June 30, 2017, and would authorize a tax equivalent to 4% of the amount paid for individual or group habilitation services provided to persons with developmental disabilities.

The proposed tax would not apply to services provided in an intermediate care facility for the intellectually disabled, and services provided by a person or entity that has a license from the Department of Health and Senior Services.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of the Secretary of State  
Joint Committee on Administrative Rules  
Office of Administration  
    Division of Budget and Planning  
Department of Elementary and Secondary Education  
Department of Mental Health  
Department of Public Safety  
    Missouri Veterans Commission  
Department of Revenue  
Department of Social Services



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